Mechanisms for Financing General Budget Deficit: A Comparative Study between Algeria and Sudan

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Abstract :

This study aims to shed light on the experience of Algeria and Sudan in attracting national savings and financing the public budget deficit. Algeria has amended the Loan and Cash Law 90/10 and promulgated Law No. 17-10 on non-conventional finance despite the risks involved. On the other hand, Sudan adopted the issuance of Islamic Sukuk, considering the absence of inflationary effects, and its importance in mobilizing savings from various sources and directing the financing of investments, in addition to financing projects in the public sector through providing the necessary funds for infrastructure projects and addressing the shortcomings of finance.

Keywords: Budget deficit, non-traditional financing, Islamic instruments.

JEL classification codes: G31 ; G32

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Introduction:

The problem of providing financial liquidity is one of the major problems that afflict oil economies, including Algeria. It is part of the larger problem that stemmed largely from the fact that any economy needs to be provided by the resources necessary to finance and ignite the economic growth. The root of the problem lies in the country's dependence on the exported oil and the major weaknesses in the global financial architecture, as there has been no meaningful availability of financial resources. Hence, governments are forced to resort to so-called deficit financing or inflationary financing in the sense that they leveraging the public and banks via treasury bills (T. Bills) or from the Central Bank through a new cash issuance. Moreover, weak public and private savings force the State into debt, and as a result, increase in printing money to regain its financial stature.

Problem Statement:

In light of the foregoing, we raise the main question:

To what extent have the experience of Algeria and Sudan succeeded in financing the public budget deficit in light of the decline in oil prices in global markets?

Study objectives:

We seek through this study to:

- Study the unconventional funding mechanism to finance the general budget deficit in Algeria through Law No. 17-10;
- Recognize the status quo of the Islamic Bonds Industry “Sukuk” in Sudan and the size of the development that has been reached;
- Review the importance of Islamic Sukuk in financing the public budget deficit in the Government of Sudan through Islamic Sukuk; and
- Address the possibility of applying the Islamic bonds “or Sukuk” in Algeria as one of the solutions to finance the budget deficit in light of the decline in oil prices.

I. Presenting the Algerian experience in financing the public budget deficit through the unconventional funding mechanism:

1.What is an unconventional funding?

Deficit financing or inflationary method of financing is “the case in which the state relies on its expenditures to exceed its revenues and results in a deficit that is covered by a new money issuance”. The state can use unconventional funding or what is termed the “money issuance” as a source of general revenue to close budget deficits through enforced borrowing from the Central Bank or Commercial Banks. Money issuance refers to the state resorting to issuing a new amount of cash or bank credit via commercial banks in the written form, such as loans or treasury bills issued for the benefit of the central bank or commercial banks in the second case. According to financial jurisprudence, the aforementioned method is called “financial inflation” or “economic inflation”. It leads to a reduction in the purchasing power of the states’ money. More specifically, it becomes a burden of income or wealth and accordingly, inflation is useful in distributing the general burden along the output movements or income scale, as opposed to taxes.

2. Unconventional Financing Mechanism Adverse Effects:

An increase in cash flow, on the one hand, leads to an increase in prices, which reduces the volume of consumption – the so-called compulsory savings- that is in the interest of the state. Cash increase, however, enables the state to cover its public expenditures or to finance public investments; and, on the other, monetary issuance leads to social disadvantages due to the lack of high wages in order to face the high prices, especially in poor countries that do not have an advanced production system. It therefore follows that:

- ❖The economy is unable to cope with the new monetary issuance because it creates new purchasing power;
- ❖The economic inflation has negative effects in all economic aspects;
- ❖The increase in the general level of prices, especially the prices of factors of production, leads to an increase in the cost of production and thus constitute a major impediment to further increase production volume;
- ❖The low purchasing power of the national currency against the market value of foreign currencies, on the one hand, leads to an increase in the price of exports in world markets and thus to a decrease in competitiveness value. On the other hand, the decline in the state's foreign currency earnings cause a decline in confidence in national production and presents a risk to developing countries that depends on exports to finance their public budgets;
- ❖Lower purchasing power leads to higher imports, and thereby reduces the amount of foreign currency reserves;
- ❖Inflation results in speculation, accompanied by rising property and precious metals values, and undermined by a lack of confidence in the national currency and foreign investment, and cash smuggling ; and
- ❖The new monetary issuance unfairly redistributes national income or wealth, whereby the rich get richer and the poor get poorer.

3.Algerian Gouvernements Justifications for Non-Traditional Financing

In front of a financial and economic crisis due to a severe collapse in oil prices since mid-2014 and a decline in the volume of oil revenues, Algeria has decided to resort to most common non-traditional financing sources. In view of the Ordinance Nº 03-11 of 27 Jumada Al Thani 1424 corresponding to 26 August 2003, on money and credit, amended and supplemented; the Algerian government amended the Money and Credit Law Nº 10/90 and issued the Law Nº 17-10 dated 20 Muharram 1439 corresponding to 11 October 2017 in order to authorize the Bank of Algeria to acquire directly bonds to be issued by the Treasury. This amendment allows the public treasury to borrow to finance the budget deficit, without the government having to impose more taxes on citizens. The Algerian government has justified that the resort to the local unconventional financing mechanism is to face the financial crisis. In addition, the loans that the public treasury will obtain from the Bank of Algeria will have a "positive impact on the national economy, as they will allow covering expenses (wages, and bills of consumables, etc.). Loans will further allow the re-launch and completion of projects frozen in recent years. This is first and foremost projects concerned with health and national education. Also, these unconventional loans that will be granted to the public treasury would allow the state to pursue its interests normally, without having to impose many new taxes. This type of financing will have a positive impact on local companies, as it will allow them to collect debts owed to administration, which will enable much substantial durability. In the long-run, repaying debts owed to Sonatrach Corporation (Algeria) will be financed by the treasury or public banks committed to committed to purging Sonelgaz complex status, in a way that banks will regain the cash flow to finance in return the economic investment. The Algerian government has however indicated that this exceptional financing will be limited in time for a maximum period of five years, stressing that this type of financing will be accompanied by economic and financial reforms in order to restore Public Finance balance and balance-of-payments equilibrium. It is worth note that, in October 2017, during the presentation of the Finance Low 2018, which was before the Budgetary and Finance Committee of the National People's Assembly, the Minister of Finance had delineated that the fiscal deficit would be lowered from 2.344 to 1.963 billion dinars in 2016 and 2018; respectively, and to 55 billion dinars by 2019. He said also that the treasury deficit would be mainly covered by resorting to unconventional financing, in addition to amounts exceeding the accumulated surpluses recorded on the balance sheet.

4.Money and Credit Amendment Act of 2017 Content:

In the mid-2014, Algeria has experienced an unprecedented economic crisis due to owing to lower oil prices in global markets as a result of a sharp drop (from 100 $ to 46 $ in 2014 and 2015, respectively) in world oil prices that was not expected before. Therefore, the increase in public expenditures was to address concerns of the Social Democratic Front, achieve political stability, and overcome economic difficulties, thus deepen the ongoing economic crisis in recent years.

By contrast, Algerian government has achieved widespread success in resorting to an unconventional financing mechanism to finance the public budget deficit besides the productive and consumer activities, due to inadequate oil revenues and national saving levels, and thereby has been reflected in increasing inflationary financing rates in recent period. The Algerian government has, consequently, amended the Money and Credit Law, or what is known as Law 90/10, to avoid external borrowing to finance development projects, as well as pursue stabilization and economic reform policies that the government had agreed upon for years. This amendment will allow the Bank of Algeria (Central Bank) providing funds for direct on-lending to the public treasury in order to allow the latter to finance budget deficits and domestic public debt and support National Investment Fund (NIF) resources, under what was known as the adoption of unconventional funding sources.

It is noteworthy that, the Law N° 90 of 10 contains two articles; the first article sets forth the following: “In view of the (Ordinance No 03-11) of 27 Jumada Al Thani 1424 corresponding to 26 August 2003, on currency and credit, amended and supplemented some provisions of the aforementioned Ordinance; and added article 45 bis, addressed as follows:

Article 45 bis: notwithstanding the operation and effect of all contrary provisions, the Bank of Algeria shall be purchase, from the day of the entry into force of the Law, exceptionally and for a period of five (5) years, financial bonds issued directly from the treasury in order to contribute in particular, to:

- Covering treasury financing needs;
- Financing domestic public debt; and
- Funding National Investment Fund.

Besides, this mechanism has given a practical expression to implement economic and budget structural reforms program, which should, at the end of the above-mentioned period, lead to:

- state treasury balances; and
- equilibrate balance-of-payments

The mechanism is set up to monitor the implementation of this provision by the Treasury and the Bank of Algeria through appropriate regulation. According to this amendment, the public treasury can benefit from financial services offered broadly by the Central Bank. In addition to the traditional method related to loans and advances, the public treasury will be able to collect financial resources through new mechanisms directly and without the traditional restrictions that were defined by the Money and Credit Law, as follows:

- Article 45 bis: in view of the (Ordinance No 03-11) of 27 Jumada Al Thani 1424 corresponding to 26 August 2003, on money and credit, amended and supplemented; states: “The Bank of Algeria can grant treasury current account statements. Thus, the preliminary proceedings cannot exceed the full period of 240 consecutive or non-consecutive days a common year, and on a contractual basis, and accordingly the financial commitment on the state should not exceed a maximum limit- equivalent to ten percent (10%) (Article 77 of Law No 90-10 , of 19 Ramadan 1410 corresponding to 14 April 1990) of the ordinary revenue budge – fixed in the past budgetary year”.

The public treasury, for example, was only able to borrow 343.5 million dinars in 2017 with regard to the previous year’s total tax-revenue of 3435 billion dinars, excluding taxation earnings on petroleum exports. However, with the new amendment, the Treasury was exempted from this condition and it could be able now to open an overdrawn current account without a credit ceiling and with more affordable terms. With this exemption, the public treasury would therefore have benefited from a new and unconventional financial resource;

In accordance with the Money and Credit Law N° 10/90, and in light of the prevailing economic laws, the central bank can only print an additional currency according to accurate economic calculations about the clearly states; “The Bank of Algeria issues the currency, within conditions the established percentage of coverage by regulatory measures taken under clause A of Article 62 cited below. The currency coverage includes the following:

- gold bars and coins;
- foreign currencies;
- Treasury bonds; and
- Bonds accepted under the re-discount, collateral or mortgage system.

Freed of that constraint, the Bank of Algeria can however print more dinars to meet the needs of the public treasury, and that is a source of an unconventional source of financing.

Table 01: Bonds issued or guaranteed by the state under Article 45 bis of Law N° 17-10.

Month	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018
Bonds issued or guaranteed by the state	570	2185	2185	3585	3585	3585	3585
Month	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018
Bonds issued or guaranteed by the state	3585	3585	3585	3585	4005	4005	5192.2

Source: Bank of Algeria publishable situ for 2017, 2018, and 2019.

By a simple reading based on the provision of Law, we could say that the limits and ceiling of the monetary issue in cases of monetary gold and foreign currencies have not changed, but it has implicitly changed the limits of monetary issues by the Bank of Algeria in the case of the funding relationship with the public treasury.

It is clear from this article that the issue ceiling is not limited to a certain value, but rather to the extent to which the treasury revenues cover its various expenses and debts to bond owners (creditors in loan and bond issuance process in 2016) in addition to the volume of investments funded by the NIF (Ramli, June 2018).

It can be concluded that the unconventional funding process involves a printing press or what is known as “la planche à billets” which is defined as “the process of issuing money from the central bank without coverage or real return”.[5] In the sense that it is printing more money, which recycles the same amount of goods and services, in addition to that this type does not fall within the scope of unconventional funding (Hubert, Décembre 2011).

During the period 2016-2018, consumer price index has increased significantly due to many factors, including the increase in the unconventional funding value, which had not been matched by increase in production or recovery in crude oil prices.

The following table represents the consumer price index evolution during the period 2016-2018:

Averages	CPI
third tripartite	183.72
Fourth tripartite	185.65
First tripartite	187.15
Second tripartite	191.74
third tripartite	193.84
Fourth tripartite	193.60
First tripartite	198.32
Second tripartite	203.23
third tripartite	202.80

Source: Bank of Algeria, Quarterly Statistical Bulletin, Nº 44, December 2018, p: 29.

The above table indicates that there is a slower progress in consumer price index (inflation) in Algeria - with an estimated in fiscal year 2016 at 183.72 and 187.15 (during the second tripartite and fourth tripartite, respectively) in fiscal year 2017 at 191.74 and 197.60 (during the first tripartite and fourth tripartite) and in fiscal year 2018 at 202.80 (during the third tripartite).

It is possible that this is due to a specific inflation rate (CPI), money supply growth, exchange rate movements, world commodity prices and imported inflation and this, in combination with the expected sluggishness, does not cover any corresponding increase in non-consumer commodity prices.

5.Islamic finance in Algeria as a real alternative to attract savings and finance the public budget deficit:

In the light of the risks of unconventional funding on the economic and social levels, the Algerian government issued a law related to Islamic banking that includes economic rules, practices and following participatory processes, including banks and financial institutions, on the one hand, and attempts to keep pace with global and regional developments and raise national saving levels.

In view of (Regulation No 18-02) of 26 Safar 1440, corresponding to November 04, 2018, that incorporates financial rules and regulations related to participatory processes to plan and implement Bank-supported operations by Banks and Financial Institutions ; and By Ordinance N° 03-11 of 27 Jumada Al Thani 1424 corresponding to 26 August 2003, on currency and credit, amended and supplemented; paragraphs 66 to 69 therein.After deliberation and review of what has been submitted by Credit and Monetary Council on 04 November 2018, the following has been issued:

Article 01: This system aims to define the rules applicable to the products-called “participatory”- that do not result in the collection or payment of interest. It also aims to define the conditions for prior authorization by the Bank of Algeria for banks and financial institutions accredited to carry out banking operations related to participatory banking.

Article 02: Banking operations are considered, in the concept of this system and related to participatory banking, all operations carried out by banks and financial institutions that fall within the categories of operations mentioned in Articles 66 to 69 of Order N° 03-11 of 27 Jumada al-Thani, 1424, corresponding to August 26 2003, on currency and credit, amended and supplemented; fund-receiving, fund-investing, and financing operations that do not result in the collection or payment of interest. These operations are, in particular, related to the following types of contracts and instruments, which are addressed herein: murabaha, musharaka, mudaraba, ijara, istisna'a, salam and wadai'ah.

These participatory banking instruments are subject to the provisions of Article 03 of Regulation N° 11-03 of 26 Jumada al-Awwal 1433 corresponding to 08 April 2013, which sets general rules relating to bank conditions applicable to banking operations.

Article 11: In addition to the provisions of this system, and unless otherwise provided, the products of participatory banking are subject to all legal and regulatory provisions related to banks and financial institutions.

II.Presenting the Sudanese experience to finance public budget deficit through Sukuk Mechanism

1.Islamic Instruments (Sukuk) definition

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines "sukuk" as:

"… certificates of equal value representing, after closing subscription, receipt of the value of the certificates and putting it to use as planned, common title to shares and rights in tangible assets, usufructs and services, or equity of a given project or equity of a special investment activity". (هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية, 1331 ه/ 2O12 م)

According to the Egypt's Sukuk Law, Islamic bonds are defined as: "bonds issued by the government, government departments, local administrative units and public legal persons." (ناصر & زيد, 2014)

The issuing includes the conversion of real assets into negotiable securities (such as real estate, aviation, rental cars, etc.) buying directly from the first owner (assets' supplier) or by using money collected from issuing bonds to purchase new assets for the purpose of trading or leasing (عيد).

Occasionally, Islamic bonds are available for subscription by several actors where the issuing company gets immediate cash with a fixed annual interest rate or profit for these bonds, which can be tradable or transferable into equities by those involved in relevant financial issuance (صفية أحمد أبو بكر) .

1.1.Islamic Bonds Importance:

a. For the economy as a whole, Islamic bonds "Sukuk" make an economic development in various sectors (محمد, 2013) , which definitely could be:

- ❖ One of the best Shari'ah-compliant formulas alternative to conventional bonds, in terms of financing megaprojects that are unable to be implemented by one entity;
- ❖ A contribution to Economic Funding by taking advantage of funds that are reluctant to projects financed usuriously;
- ❖ A means of financing the pressing institutional and development needs with the purpose of achieving the desired progress by the state and its citizens;
- ❖ An effective tool in addressing the public budget deficit by providing real resources that are positively affecting the general price level, and thus financing development projects inexpensively; and

- An economic growth engine that attracting investors by granting them high benefits; in terms of liquidity requirements, returns, and risk-taking, that financing institutions' projects and enhancing in return the economy.

b. *Islamic bonds Role in attracting savings:*

Islamic banking in its various forms; institutions, bonds, investment funds, insurance and reinsurance institutions, is a tool that facilitates the process of raising funds and directing them towards financing development projects by mobilizing their own resources from investors. The diversification of Sukuk issuance, in terms of meeting deadlines, enables to collect savings of various categories. In addition, value-sorts, purposes, as well as liquidity and return assessing ways gives the Islamic Bonds the advantage of being traded in the secondary market.

c. ***Islamic bonds Role in funding investments*** (بوقموم, بن جميل, & وآخرون, جوان 2019)*:*

Sukuk are an alternative to other means of financing, such as borrowing from other institutions or increasing the share capital by issuing new shares. Given the fact that the issuance provides the ability to mobilize funding sources by obtaining new investors and then providing long or medium term financing, the issuance could work in reducing the degree of taking risks and the chances of lowering the cost of funding because sukuk are to be carried out on overcollateralization; assets, which are in place to enable to:

- Take advantage of the presence of a retail financing source separate from the interbank market, to fund long-term assets (issuing) because retail financiers may from time-to-time behave differently from banks (diversifying funding sources);
- Improve the credit capacity and the financing structure of the issuer, in the sense that securitization requires a portfolio credit rating determined separately from the issuer itself and thereby bond credit rating represents the credit worthiness;
- Recycle the invested funds without the need to collect receivables within varying terms, because issuance helps to convert illiquid assets into liquid;
- Liberalize from the public budget constraints. It is known in accounting that the assets subject to securitization, which are often debts, appear as one of balance sheet items. When calculating capital adequacy and measuring credit risk, debts adjusted or estimated as an expected prohibition to cover the likely uncollectability of certain unpaid assets; and when these debts are securitized, they will disappear from the budget to be transferred to companies specialized in securitization to be replaced by the price paid by the company. Thus, the assets value increases, and consequently, the capital adequacy ratio increases.

To this end, there was a need to focus on internal funding sources to provide financial resources and to harness remittances for development-oriented use. In fact, Islamic bonds are an important tool that works to mobilize savings with high efficiency (Jasser, 2013)

and direct them towards real investments by underwriting ensure new issues of securities in the primary market. The resources mobilized through these issues are directed to finance new projects or expand micro businesses. Accordingly, it can be concluded that the larger the number of financial instruments issues, the greater the real horizontal or vertical investment expansion.

1.2.Sudanese Experience In Financing Public Budget Deficit Via Islamic Bonds:

The Sudanese experience is an extensive and successful example in the field of Islamic sukuk industry and this is due to the fact that the Sudanese banking sector operates according to Islamic law. By issuing Islamic bonds, the Sudanese government works to achieve the desired goals, which are:

- ❖ Managing and organizing liquidity to meet the needs of economic activity and maintaining economic stability by focusing on the indirect tools represented in open market operations in addition to financing banks and providing liquidity to the private sector;
- ❖ Relying on real resources instead of borrowing from the banking system and achieving optimal use of resources, as well as developing liquidity management tools;
- ❖ Attracting national savings, encouraging investment, providing a legitimate Islamic tool for managing liquidity, enforcing financial policies, and working on developing local and regional capital markets;
- ❖ Reducing the budget deficit for the purpose of achieving sustainable economic growth rates, reducing inflation and maintaining exchange rate stability;
- ❖ Achieving internal and external balance with a focus on counting on foreign exchange reserves, by enhancing export, and displacing import.

1.3.Islamic Bonds Types in Sudan:

Islamic bonds “Sukuk” in Sudan was contributed to covering many financial needs related to budget deficit, financing infrastructure projects, and revitalizing the Khartoum Stock Exchange. Among the most important are the following:

a. ***Central Bank Participation Certificates (called Shamam in Arabic):***

Sudan is the first country in the world to issue Islamic bonds that meets all the legal requirements for use as one of the monetary policy tools for managing liquidity within the banking system in particular and the national economy in general through what is known as open market operations. It is also considered as an instrument used by the Ministry of Finance and National Economy (MOFNE) to take advantage of real cash resources already present within the economic cycle and therefore it has no significant inflationary effects.

When the Central Bank of Sudan was forced to resort to a number of options to manage liquidity in cooperation with MOFNE and with an effort by the the higher Shariah authority body and an IMF expert, the first Islamic bonds were issued in 1998 and 1999 and known as the first generation of Islamic securities. They are in fact Central Bank Participation Certificates “Shamam” and Government Participation Certificates (Shahama) or (GMCs).

Central Bank Participation Certificates “Shamam” were created in June 1998. Shamam is a certificate of participation that enables its holder to share with the Bank of Sudan his ownership of shares in Commercial Banks. It is worthnoting that the certificate shall be established after listing the contributions of the Central Bank of Sudan, determining its value and then splitting it into participation certificates of equal value. The aim of the certificate is to manage the liquidity within the banking systems and provide banks an opportunity to invest their interest for short terms. However, Shammam Certificate date had expired in 2004.

b.Government Participation Certificates (Shahama) or (GMCs) :

Shahama is a certificate based on the participation formula issued by the Ministry of Finance and Economic Planning since 1999 on behalf of the Government of Sudan. It is one-year certificate marketed through Sudan Financial Service Co. ltd and accredited agencies (Central Bank of Sudan, 58th Annual Report 2018). Shahama certificate aims to attract national savings, encourage investment and provide an Islamic tool for the Central Bank of Sudan to manage liquidity at the macroeconomic level and wipe out the budget deficit. It also aims to develop local and regional capital markets, achieve a rewarding return for investors through their participation in the partnership component, which contains the most efficient companies with high financial and administrative performance. In addition, Shahama allows the Ministry of Finance to borrow real non-inflationary financial resources, which reduces its reliance on borrowing from the Central Bank of Sudan. The return on certificates is determined by the financial performance of the partnership component. Moreover, Shahama is accepted as a first-class guarantee of financing granted by banks.

C.Government Investment Certificates (Sarah) :

These sukuk were issued in 2003 based on the speculation formula by the Sudan Financial Services Company (SFSC). They have been managed and marketed in the primary market by the company and financial intermediaries.

The sukuk revenues are used to finance infrastructure projects and health, education and water sectors in various provinces in Sudan. Addedly, Sarah certificate has a validity period range from to 2 to 6 years

Further, Sarah certificate aims to collect national and regional savings and encourage investment, manage liquidity at the macroeconomic level through what is known as open market operations. It also aims to develop local and regional capital markets, use savings in government financing to meet implementing development projects and and reduce inflationary impacts by providing stable and real financing to the country. Consider the table below :

Table 03: Sudanese Government Sukuk Contribution In Financing PBD During The Period (2010-2018)

Unit: 1 Sudanese Pound (SDG).

Item	Years								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Public Budget Deficit	7,586.1	9426.1	7653.4	6,457	4,417	6434.7	11,234.9	14,314	37,846
Net External Financing	706.6	37.4	47.2	1,073	871	405.4	1,141.4	385	3,518
Net Domestic Financing	8,292.7	2080.2	5,385.0	5,383	3,546	7,381.8	10,074.2	15,450	34,394
Shahama Contribution To Internal Financing	2,020.0	1,687.5	1,886.3	738.7	1,611.6	2,611.2	2,109.4	3,276	3,011
Contribution Rate (%)		17.9	24.6	11	36	37.4	18	23	08
Sarah Contribution To Internal Financing	1,662.0	521.5	501.2	495.7	173.1	50.3	206.4	163	206
Contribution Rate (%)		5.5	6.5	08	04	0.72	1.8	01	01

Source: Central Bank of Sudan, annual report for years: 2010, 2012, 2014, 2016, and 2018.

II. Conclusion:

The unconventional financing (monetary issuance) process that Algeria has resorted to finance public budget deficit has, on the one hand, negative consequences for the national economy, especially high inflation and low national currency value. Sudanese experience, on the other hand, in issuing government Islamic sukuk in accordance with Islamic law has achieved positive results by covering an important part of the public budget deficit, as well as mobilizing national savings and financing investment projects and infrastructure, ect. Thus, we would like to call for activating and encouraging the process of issuing Islamic bonds in Algeria by various means and methods.

The findings of our research are quite convincing, and thus the following conclusions can be drawn:

- ❖ Algeria resorted to deficit financing mechanism (new monetary issue) due to the paucity of capital flows in the production. This stems from the fact that the low saving tendency, the high consumption tendency, and the lack of financial and banking systems that are able to accumulate existing savings;
- ❖ The adoption of unconventional sources of financing will positively affect the ability of the public treasury to cover its expenses: wages, consumer support bills, public investment bills, etc. But this may cause serious repercussions in the medium and long term periods. Consequently, this process was not accompanied by an elaborate development strategy based on scientific and economic pillars, rather than on a social vision;
- ❖ Deficit financing has negative effects on the development process because it leads to higher costs by reducing the value of real money (purchasing power) and resulting from an increase in the total money supply and high rates of inflation. Consequently, it leads to the failure to attract foreign holders of capital to invest in the country. besides, the low value of money weakens the contribution of local capital in the economic recovery process;
- ❖ Sudanese experience achieved success with Islamic banking in general. The fact that Sudanese financial system operates entirely in accordance with the principles of Islamic Shariah, it has made it occupy an important position in the field of Islamic sukuk industry;
- ❖ Islamic bonds enable the companies to provide the necessary liquidity to finance their various needs, in addition to finance multi-term financial sources that complement traditional sources; and

- risk-sharing feature of Islamic bonds makes the latter a great tool for financing the general budget, in particular, and the economic development in general.

Clearly, further research will be required to :

- Resort to appropriate financing deficit and direct these funds towards productive projects that would increase goods and services (real economy);
- Avoid the use of financing deficit mechanism and resort to it when strictly necessary ; namely, in cases where it does not reflect negatively on the national economy;
- Apply the import policy, and monitor export policy, which will focus, and further elaborate, on the import of goods that contribute to increase national production;
- Implement Islamic bond system in Algeria and benefit from international experiences in light of the limited financial resources due to sharp fall in oil prices ;
- Set a legislative, legal and fiscal framework that regulates the issuance, trade and concealment strategy of Islamic bonds; and
- Spread the Sukuk culture among families and institutions in addition to recruit and retain qualified staff manage the process of issuing and trading Islamic securities.

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